GATT: THE ELEVENTH HOUR FOR ARTICLE XI?

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ISSUE DEFINITION

In Canada, every spring sees new debates on agricultural polices. Since global trade has monopolized discussion on these policies all over the world for the past few months, it is not surprising to note that it has also sparked controversy on the Canadian agricultural scene.

During the GATT Mid-Term Negotiations, various member countries signed an agreement (the Dunkel Report) which set out some long-term objectives and provided for short-term measures to achieve them. These measures consist of freezing export and production subsidies and maintaining current import limits. The Canadian government's sudden calling into question of many Canadian agricultural policies was all it took to provoke a general outcry from agricultural organizations. Their protest is understandable, as it seems the most serious reforms would strike at the foundations of Canadian agricultural policy, including supply management.

A healthy debate could have fostered consultation and allowed some progress in agricultural reform; instead, the situation has deteriorated into a war in which words and figures are tossed to and fro between the parties. As a result, there is almost unprecedented confusion, which only sustains the confrontation, and benefits nobody. The push to reform agricultural trade policies too quickly has opened up a Pandora's box for domestic agricultural policies.

This document is intended to clarify the current situation. To this end, it will be based strictly on the probable economic impacts of the decisions made and disregard the political options that may have motivated them. From this viewpoint, GATT Article XI is presented as the cornerstone of the domestic agricultural and trade policies of producing countries.

BACKGROUND AND ANALYSIS

A. Supply Management

Marketing boards are one of the foundations of the Canadian agricultural economy. They are found in all provinces, cover a wide range of agricultural commodities and all basically have the same main objective: to foster the most efficient marketing possible. Since information is often needed in the agricultural sector, marketing boards act as a centre from which it can easily be distributed, making it possible to foster the production and development of products, improve product quality and distribute resources better. Market rationalization has helped many sectors to develop more easily and rapidly.

Canada has six marketing boards which form part of a national plan; they cover the wheat, industrial milk, egg, chicken and turkey sectors. If the Canadian Wheat Board, which operates mainly in foreign markets, is excluded, a specific characteristic of national marketing boards is that they manage supplies. In fact, during the 1960s and 1970s, Canada legitimately applied some GATT rules, particularly Article XI, in order to foster development and growth in some agricultural sectors. This formed part of the federal strategy to increase food self-sufficiency, particularly for some primary agricultural commodities.

Production rationalization has promoted income stability and partially eliminated the social and economic costs of fluctuations in the traditional production cycles. Of course, supply was not controlled without difficulty, but price-setting formulae, based on production costs, have largely contributed to ensuring the financial stability of the entire agricultural economy within Canada.

The vast majority of analysts who have examined this issue have underestimated the impact of this stability on Canada's agricultural economy as a whole.

Too often, it is also forgotten that supply management implicitly favours soil conservation and guarantees a constant supply and of basic foodstuffs of good quality. Supply management also makes for dynamic productivity, necessary because producers are not all the same, and allocates resources in keeping with demand. Supply management creates a "market within a market" in which demand is a fundamental variable.

Supply management, however, does have its faults. Those criticizing it maintain that a non-regulated market would considerably reduce the price of agricultural commodities and allow better resource allocation. That is quite true, especially if current production costs in other countries are considered, particularly, as far as Canada is concerned, in the United States. If there were no regulation, the American market would become Canada's main supplier of primary agricultural commodities, such as milk, eggs, chicken, etc. Of course, some of the most productive and best integrated Canadian producers of these foodstuffs would still ensure a certain level of domestic production, but it could be expected that they would be both concentrated and specialized. The geographic location factor would become a more important variable than it is now.

Supply management systems are also self-destructive. In fact, market access barriers for new producers, the difficulty of transferring activities among individuals, the aging farming population and tensions created by interprovincial barriers are factors that relentlessly lead supply management systems towards an impasse.

For example, in the dairy sector, the number of dairy farms is decreasing at an annual rate of 5 to 6%; as a result producers could number less than 20,000 by the year 2001, assuming no other major change corrects the current market. A drop in demand due to an aging population and a change in the population's diet to one based on vegetable rather than animal products, are two factors that suggest losses for Canadian dairy producers.

Abandoning supply management systems will bring about some costs, but also some advantages. In the short term, consumers will benefit from a less regulated market. As for producers, there will be a significant adjustment and as a result only the most productive of these will remain in business. In the long term, when production has become highly concentrated, it might be necessary to regulate what will have virtually turned into an oligopoly; however, in principle, that would be less costly than maintaining the current market within a market.

Certainly, for the time being, it seems that the social and political costs of abandoning supply management systems outweigh the economic advantages. These systems seem to have reached a critical point where the cost-benefit equation will eventually be reversed. Though supply management has brought stability to the sectors where it has been used and has

favoured their integration into the processing industry, it is clear that this concept no longer fulfils its original mandate, which was to promote development of certain agricultural sectors. It is now a protected domain that still serves some social and political interests, but has attained its economic objective.

B. Agriculture and GATT: Article XI

Agriculture falls within a grey area of GATT rules, and countries remain hesitant about tackling it, even now. After the Second World War, the United States dominated world trade to a large extent and implemented several measures to assist its farmers. These measures were essentially intended to support the prices of foodstuffs; therefore, the Americans imposed import quotas, regulated production to limit surpluses and stimulated consumption to maintain an equilibrium. Pressured by farmers, who wielded substantial political power in those days, the United States sought to protect its measures at the first GATT negotiations. As a result, though GATT was intended to open up world trade, agriculture, has been treated as an exception, particularly in Article XI. GATT Article XI provided for the general elimination of quantitative restrictions, but paragraph 2 states that Article XI does not extend to the following:

> c) Import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate:
>
> i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted [...]

Paragraph 2 also describes quotas in greater detail:

> [Restrictions] applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions.

American agricultural programs aimed at protecting farmers' incomes in the 1930s and 1940s were thus the foundation of the exceptions to the GATT rules on agriculture. But, however different the agricultural economy of the 1980s may be, the same problems seem to crop up today: supply stability and its corollary, the stability of farmers' incomes.

For over 30 years, a certain organized chaos has prevailed in world agricultural trade. In fact, as long as trade remained at a relatively modest level, such a system could not create any true market distortions. But trouble was brewing, while countries' domestic policies, which gave income support through high prices and no production limits, generated destabilizing surpluses. In the mid-1980s, the system collapsed, and negotiations on new GATT agreements came in time for industrialized nations to undertake to reform their domestic agricultural policies and, in so doing, impose better control on world trade. This wind of reform seems to blow over all policies, even those like supply management systems that appear the least likely to be affected.

C. From Chaos to Clarity: The GATT Mid-Term Agreements

In Tokyo in 1986 and in Venice in 1987, member countries of the Group of Seven proposed some avenues of reform for their national agricultural policies. In September 1986 in Punta del Este, participants in the GATT Multilateral Trade Negotiations agreed to examine those avenues. Attention of the Uruguay Round was immediately focused on agriculture, which has continued to monopolize debate since then.

Discussions were stagnant for almost two years until the December 1988 GATT Ministerial Meeting in Montreal. During this mid-term meeting, broad avenues of reform rapidly led to impasse. Essentially, the negotiations came up against the concept of completely eliminating price support policies and other measures protecting agricultural trade, instead of reducing them partially and gradually.

The Montreal meeting also highlighted the vital importance of agriculture to developing countries. Participants also clearly indicated that work at the 15 GATT negotiation tables should proceed at a similar pace, thereby illustrating that the Uruguay Round is a global dialogue.

For Canada, the Montreal meeting will always be the meeting at which the Cairns Group failed, for the first time, to find common ground. (The Cairns Group, of which Canada is a member, is composed of 14 countries that want GATT to address agricultural subsidies.) In fact, its Latin American member countries wished to combine trade negotiations on agriculture with negotiations on other sectors, such as services and intellectual property, which affect trade. Since the Cairns Group could not agree to do that, it did not take a stand, thus making it clear that the pattern would be one of collaboration only when there is agreement, but would be "every man for himself" when members cannot take a common stand. Until now, the Cairns Group has influenced the direction of the GATT negotiations, but everyone knows that, from now on, the Group need only be divided in order to be weakened.

Despite the fact that the GATT Director General had been mandated by the trade ministers to reach a consensus before April 1989, it is surprising that an agreement, called the Dunkel Report, after the name of the president of the Trade Negotiations Committee, was reached on 7 April 1989, only four months after the Montreal impasse. This suggests great flexibility and remarkable goodwill on the part of the members; but perhaps there is more to it.

Precisely one year earlier, in April 1988, a private task force comprising 29 professionals from 17 countries who met on four occasions between November 1987 and April 1988, submitted a policy statement that proposed a framework for the trade negotiations. By developing a common point of view, the group wanted to pave the way for a possible undertaking by GATT members of agricultural policy reforms. The group's report, "Reforming World Agricultural Trade," published by the Institute for International Economics and the Institute for Research on Public Policy, suggested some short- and long-term measures. The section called "A Multilateral Program of Early Relief" states the following:

> The achievement of longer term reform of policies would be facilitated if governments agree to undertake early actions to provide relief from the most severe distortions currently affecting agricultural trade. These short-term actions should include a freeze of all trade-distorting subsidies and import barriers, undertakings not to introduce new measures with adverse trade effects and a commitment to roll back those which now exist.

In retrospect, this text seems almost identical to the text of the 7 April 1989 agreement; predictions of undertakings to be taken by the GATT member countries must now take into account the long-term proposals in the statement of this group of 29 professionals.

The April 1989 agreement addresses four questions that had been put on the back burner since the Montreal Mid-Term Review: agriculture, textiles and clothing, safeguards and intellectual property rights concerning trade, which brings to 16 the total number of issues covered by the Mid-Term Review agreements. The agricultural agreement includes three sections, two of which address specifically the domestic policies of various countries. One section deals with some long-term measures and the guiding principles for reform, while the other defines some short-term components that are at the centre of the current controversy. GATT Article XI is never mentioned specifically, but there is no doubt that the new rules are aimed at it.

The short-term section of the agricultural agreement, sometimes referred to as a freeze, consists of a cease-fire in the agricultural trade war. GATT member countries agreed "... to undertake to ensure that current domestic and export support and protection levels in the agricultural sector are not exceeded." In the short term, that amounts to no increase in production subsidies and import limits, hence the notion of a freeze of support prices. The agreement was largely inspired by a proposal developed by the Cairns Group in June 1988, which provided for some short-term measures to reduce regulated prices with the exception of domestic policies that do not stimulate production (that is, supply management systems). However, the GATT agreement does not contain this last clause, to the disappointment of supply management partisans, who believe that such systems do not contribute to international trade problems.

This agreement does not deal with a specific agricultural commodity or national policy and, as a result, is not intended to make a distinction between those policies that create many international trade distortions and those that create hardly any. This is a worldwide undertaking; it can even be viewed as a simple political undertaking, as countries wanted to show goodwill in order to step up the Uruguay Round of trade negotiations. This is what GATT Director General Arthur Dunkel probably had in mind when he commented on the agreement's

results: "I think the results are good for the Uruguay Round, good for the participants and particularly good for the multilateral trade system."

In concrete terms for Canadian producers, this undertaking means that support prices which are set above international prices may not exceed current levels. However, current GATT rules will remain in effect: "It is important to emphasize that Canada continues to retain all of its rights under GATT, including the ability to introduce import controls in support of supply management programs" (Agriculture Canada Press Release, 14 April 1989). This agreement will last until December 1990, when the negotiations on agriculture will be officially completed.

The countries also agreed to continue discussions to reduce support levels, and set October 1989 as the deadline for submitting proposals on this issue.

In the meantime, the Negotiating Group on Agriculture will focus its efforts on the following issues in the long-term section of the Mid-Term Review:

- the conditions and use of a global support measure;
- strengthening GATT rules and disciplines, and ways to make these more effective in practice;
- tariffs, income support without considering production and other ways to adjust support and protection;
- ways to take into consideration the possible negative effects of the reform process on developing countries that are net food importers.

The Negotiating Group on Agriculture is free to discuss the short-term components if the need arises.

D. From Nuance to Substance: Interpretations of the Mid-Term Agreements

Much of the confusion surrounding the agricultural agreement is attributable to the different interpretations by the various participants, who could almost be suspected of wanting to render the debate fruitless.

From the outset, agricultural pressure groups have maintained that the short-term measures provided for by the agreement should not deal with supply management, because that does not cause trade distortions. Though it is true that agricultural production subsidies aimed at meeting domestic needs are much less harmful than export subsidies, the fact remains that import restrictions, necessary for the supply management system to work properly, imply that domestic production is substituted for imports. However, substitution is not necessarily tantamount to disruption and, when the GATT speaks of trade distortions, one tends to think more of export subsidies and excess production, which both have adverse impacts on trade that supply management can in fact prevent.

In the dairy sector, Canadian exports total approximately $200 million annually, and consist for the most part of skimmed milk powder, for which Canada has only 3% of the world market. Supply management can hardly have any negative effects on international trade in this product, since it actually limits its production. However, in the specialty cheese market, where several processors have opportunities to expand, Canada is not beyond reproach, since the import quota, unchanged since 1978, has not been increased to reflect the growth in domestic production. Canada's trading partners have thus been deprived of the market share to which they may be entitled. The fact remains that Canada uses Article XI legitimately, and that this Article is not a dispensation but a GATT rule that applies to all competitors. However, the mid-term agreements also apply to all countries indiscriminately, and are a prelude to a global reform of GATT agricultural rules; this is why farmers, and particularly dairy farmers, feel threatened.

Another major point of dissension between government and farmers results from the interpretation of the agreement on the mechanism for setting industrial milk target prices. This mechanism, based on production costs, was introduced in January 1988 to replace the 1975 income adjustment formula. Some usual structural problems appeared when the formula was used for the second time in August 1988, and in the February 1989 adjustment. Following the production cost formula would have resulted in a target price decrease of $1.89 a hectolitre in August 1988 and of an additional $0.17 in February 1989. Instead, the federal government maintained the current price ($46.92 a hectolitre), thereby demonstrating flexibility while also acknowledging that the formula might not be perfect.

These problems, which are related to the calculation of support prices, set the stage for another debate, triggered this time by short-term measures provided for in the April 1989 agreement. In order to justify freezing international milk prices, government spokespersons based their argument on Article 14 of the agreement which states:

> production support prices [...] which are set or determined directly or indirectly by public authorities or their agencies [must not] be raised above their [current] level.

The government's position amounted to admitting that the price of milk was no longer based on a mechanism linked to legislation, since the target price resulting from this mechanism had not been applied on at least two occasions.

On the contrary, some other countries, such as Norway, claim that their support prices do form part of their legislation and that they can, therefore, increase them in spite of the agreement, as this specifies that the participants' undertaking to freeze prices remains "within the scope of their existing legislation." Canadian pressure groups are obviously pushing this concept in order to leave the door open for the government to go back on its decision to maintain the price of industrial milk at its current level.

This debate could be greatly simplified by a close analysis of the facts. In fact, the price of industrial milk, at $46.92, is still subject to the target price calculation mechanism, as it was set for the first time in February 1988. Therefore, it has not been set directly or indirectly by the government, but by a mechanism that forms part of the national dairy policy which is governed by the™Canadian Dairy Commission Act.™ When the new formula would have resulted in a price decrease in August 1988, while the government did not use it, nor did it set the price randomly either; instead, it kept the™status quo,™staying within its legislative framework while demonstrating flexibility. This measure, therefore, is in conformity with the short-term measures of the April 1989 agreement.

The situation is even simpler for the $0.17 price decrease which was calculated in February 1989, but which was not applied either. In fact, the terms of the target price formula provided that the price would not change for the annual February adjustment, if the increase or decrease was within a 2% margin. Accordingly, the argument cannot be made that the government did not comply with the legislation in February 1989. On the contrary, the government administered the law legitimately and strictly.

Finally, to add to the confusion, the government announced a $0.39 a hectolitre increase in August 1989, after sending out signals that milk support prices had been frozen. This decision, which seems to have been more politically than economically based, and which was undoubtedly influenced by pressure groups, can only distort all forecasts from now on. It seems, in fact, that the target price formula was not used to work out this increase. As a result, both Canadian producers and our trading partners, going by the government's previous position, will question the logic behind this increase. Considered on its own, this is not a good decision because it sends out an obvious signal: even if, according to an Agriculture Canada Press Release, "the new target price for industrial milk represents a balanced decision," Canada no longer observes the spirit or the letter of its price-setting policy for milk. This is a gift to producers that may prove harmful in the long term.

The confusion over the target price formula surfaced again in February 1990, when the Canadian Dairy Commission decided to maintain the target price of industrial milk at $47.31 a hectolitre. According to Dairy Farmers of Canada, calculating errors falsified the results, which should, in theory, have shown a 2.8% increase and thus led to an adjustment in the price of milk. Dairy Farmers of Canada claimed that maintaining the price would mean a loss to producers of around $30 million between February and August 1990.

Over and above the problems of the mid-term agreements, the vagueness of the present GATT rules has never been more obvious than in the recent decision on the importing of ice cream and yogurt into Canada. In January 1988, Canada added these two products to its Import Control List, with a view to reinforcing the national dairy policy. Twelve months later, the United States lodged a complaint with the GATT, accusing Canada of unfair trade practices. In the fall of 1989, the GATT panel that had studied the complaint ruled in favour of the United States, but acknowledged that the Article XI rules are difficult to observe as they stand: the Article leaves too much room for interpretation of what constitutes a "like product," of the need to restrict quantities and of the form that a like product may take. Canada accepted this decision by GATT, but will wait until the end of this round of multilateral trade negotiations, in December 1990, before granting import permits, provided, of course, that the import barriers and Article XI are retained.

It seems obvious now that, in spite of the willingness of countries to reform world agricultural trade by adjusting their domestic policies, GATT members have greatly underestimated their ability to convey their optimism and sell the new order to their farmers.

E. The Final Round of Multilateral Negotiations

The lack of openness in agriculture has once again strained multilateral trade negotiations to the limit. In late June 1990, Mr. Aart de Zeeuw, Chairman of the Negotiating Group on Agriculture, proposed a framework agreement for an agricultural reform program. The agreement focused in particular on the following points: domestic support, barriers at the border, export competition, and health and plant restrictions.

Chairman de Zeeuw's report makes no specific mention of the future of Article XI. Certain vague interpretations that seem to be based on false logic would have us believe that Article XI and the other GATT rules have not been put on one side since the text notes that "participants will undertake negotiations aimed at strengthening the rules and disciplines of GATT and at increasing their effectiveness..." Assuming that existing GATT rules will be protected and improved, the fact remains that some of the proposals in the Zeeuw report are difficult to understand.

Replacing all border measures by equivalent tariffs based on the existing gap between external prices and the domestic prices nearest to real prices would damage the supply management structure. While tariffs do offer some protection against imports, they are not as safe in the long term as import quotas. As its name indicates, supply management is possible only if strict control is exercised over supply, something which tariffs render impossible.

The de Zeeuw report also recommends an Aggregate Measure of Support (AMS), endorsed by participants, which would permit expression and implementation of a gradual and significant reduction in overall domestic agricultural support. The AMS, determined according to a formula in which domestic prices are compared with world prices, is divided into "green" programs, which would not be affected by reductions, and "non-green" programs which would eventually be targeted for cuts. As noted in the report, the purpose of this reduction is to "distort trade as little as possible and to place greater emphasis on market-geared production while continuing to enable contracting parties to pursue their national agricultural policy objectives through means with minimal impact on trade."

Participants agreed to express the AMS using 1988 as the base for calculating domestic support and 1986-1988 as the reference period for international prices. As far as Canada is concerned, this period is probably the worst for evaluating government support since the level of federal and provincial farm assistance in fact peaked during that time.

At the beginning of October, Canadian negotiators at the GATT talks tabled their calculation of the various support measures for the 1988 base year; they totalled slightly more than $8 billion. Two billion of this total corresponded to "green" support payments. "Green" programs include crop insurance, rebates for the purchase of certain inputs, agricultural research, training courses and so forth.

It should be noted that in submitting its AMS list along with an evaluation of the tariffs that would replace barriers at the border, Canada reminded Chairman Zeeuw and the other participants that it still desired a clarification and strengthening of Article XI and that presentation of tariff equivalents did not signal a change of philosophy on its part.

On 15 October 1990, Canada announced its proposal for reforming trade in agricultural commodities. This followed its agricultural support calculations. The Government of Canada proposed to eliminate export subsidies completely and to reduce by 50% those domestic subsidies which distort trade; to broaden access to markets by reducing a number of barriers at the borders and by converting certain restrictive measures into tariff equivalents, except in the case of import controls, where supply is subject to a quota; and to clarify and consolidate the bases of Article XI. Furthermore, to show its good faith, Canada even proposed broadening access to its dairy product market to a level corresponding to a maximum of 5% of its national production.

Canada reminded its trade partners that its offer to cut domestic support could not rely on an AMS calculated by comparing domestic prices to world prices that are too broadly defined. Rather it must be based on still unnegotiated criteria using, however, the "green" and "non-green" program approach. It should be noted that the vast majority of GATT members agree on dividing the various agricultural support programs into these two categories.

On 20 December 1991, while the tug-of-war between the United States and the European Community continued to dominate the Uruguay Round of negotiations, Mr. Arthur Dunkel, chairman of the multilateral negotiating committee, tabled a report entitled "Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations."

The Dunkel Report contains no reference to Article XI; instead it proposes to replace all import barriers, such as import quotas, with tariff equivalents expressed as specific rate ($/unit) or value-added rates (%/volume), which would gradually be reduced by 36% between 1993 and 1991. This reduction in tariffs would have to respect a minimum reduction rate of 15% for each tariff line.

The countries concerned would also commit themselves to maintaining existing levels of market access and even to increasing them. Where there was no significant level of imports, minimum market access would be defined: in 1993 this would represent 3% of 1986-88 domestic consumption, which would rise to 5% by 1999.

Special escape clauses could be invoked for agricultural products benefiting from a concession. With respect to volume, an escape clause could be invoked if imports of a product in any one year exceeded a ceiling equal to 125% of the imports of the three preceding years or 125% of the minimum market access level, whichever was higher. With respect to price, an escape clause could be invoked if the import price fell below a floor equal to 90% of the average reference price for 1986-88. Below this floor, different duties could be imposed according to the extent of the difference between the import price and the reference price.

Although it is unlikely that they were surprised by the Dunkel Report, especially given the GATT's position on Article XI, the various farm groups that lobby for supply management objected to the Report's proposals and indignant protests followed. For agricultural groups, the system of tariffs is completely unacceptable because it does not allow the same stability and predictability as import quotas. Since tariffs are very sensitive to variations in world prices and exchange rates, it would be difficult, even impossible, to maintain a system as rigid as supply management.

Some groups, like the Canadian Chicken Marketing Agency, have predicted that their industry will simply disappear. There is sure to be a wide gap between apocalyptic scenarios and reality, and the parties concerned must look at the facts more objectively; before any sector disappears from Canada's agricultural map, there will be a period of transition for which it would be advisable to start planning immediately. Certainly supply management seems more than ever to be at its eleventh hour; however, if it were to be abolished, it would not be the first Canadian agricultural policy to disappear after its moment of glory.

Furthermore, in June 1992, the Union des producteurs agricoles du Québec (UPA), one of the most ardent supporters of supply management, discussed a strategy, based on a partnership between the agrifood industry and government, that would enable UPA members to capture a bigger share of world markets. The UPA acknowledges that to achieve this objective some pillars of agricultural policy, such as supply management, may have to be substantially modified. Even before it concludes, the Uruguay Round is already beginning to influence agricultural policies. In this case, the influence clearly should not be underestimated.

F. GATT and Canadian Agricultural Policies

The speed at which various participants seem to want to reform agricultural trade is equalled only by the growth in agricultural expenditure that has "distorted" that same trade. Yet escalating subsidies and anarchic agricultural policies go back as far as the 1950s. Canada provides an interesting example:

> From the historical point of view, the goals of agricultural policy in Canada appear to have been reasonably well defined. At the present time, however, there appears to be a growing confusion and considerable doubt as to what the goals of various agricultural programs and policies ought to be. Judging by the debate and the discussion which are taking place within and among farm organizations, in government policy circles, among academicians and agricultural administrators, there appears to be an urgent need for an evaluation of contemporary and prospective objectives for agriculture. We do not have a truly farm policy in Canada at the present time ... What we appear to have at the moment is a confusing conglomeration of policies and programs, many of which were created in times of emergency and which have been patched and perpetuated long after the original crises have disappeared.

One might easily think this quote was taken from J.C. Gilson's latest work published in 1989. But it was not: it was taken from a presentation given by that same author in March 1967. It shows how little things have changed in 20 years and that agriculture can often display unsuspected inertia.

By basing the main objective of their policies on the urgency to stabilize agricultural trade and tackle the issue of imbalanced markets, countries participating in the

GATT negotiations had three options. Ranging from the most rigid to the most flexible these are: the classical approach of immediate and total liberalization, which was proposed by the United States but rejected by the other countries; the market forces approach, which regards as inevitable distortions caused by domestic policies of countries attempting, collectively or individually, to choose policies which will afford them the greatest well-being; and the negotiated approach, which in fact was retained by the participants and is aimed at achieving a more liberal regime. This last implies, however, that domestic policies will have to be adjusted considerably.

In their haste, and encouraged by certain shared beliefs on the advantages of trade liberalization, the countries put all subsidies and all agricultural support programs on the same level. Advised by their analysts, they also assumed that current trade and production levels would be balanced and that resources would automatically be reallocated in the best possible way. These same analysts had also predicted a shortage of foodstuffs in the early 1970s, with results we all know.

The countries also realized that their agricultural budgets remained economically sterile because of the negative interaction among the domestic policies of various trading partners. It is estimated that almost 50% of the agricultural budgets of industrialized nations are used essentially to offset damage caused to their net agricultural income by government action taken in other countries. Since trade in foodstuffs causes the effects of domestic policies to be imported or exported, logically, trade stabilization should solve the problem.

In fact, there are good reasons for reforming domestic agricultural policies, but liberalization should not be seen as a panacea. The GATT seems to be a good round table, since it favours trade according to fair competition, but it is more familiar with unfair trade practices brought about by tariffs than with those involving non-tariff barriers and support programs, as is the case for agriculture. A lack of understanding of the agricultural fact explains in part why short-term measures in the April 1989 agreement applied equally to the entire sector. Furthermore, an attempt is being made to reform in a few years something that took 30 years to develop.

After benefiting from public sources, agriculture must now pay the price. The apparent urgency of the situation and the current spirit of liberalization have brushed aside some

distinctive principles of agriculture, which is usually slow to respond to market signals. If there is currently an excess supply, what will be done with the thousands of acres of land that will be left uncultivated? If viable agriculture is truly desired, what measures are likely to decrease the use of some agricultural inputs without affecting output? What will be the social costs of relocating farmers? Since it is difficult to predict future demand and the agricultural market is slow to react to appropriate signals, is there a chance that too much land will be left uncultivated and will then rapidly become difficult to recover? What will happen to traditional food security which has for so long been the ultimate goal of producing countries? Do comparative advantages, which have not been evident in world production decisions for a long time, actually work in agriculture?

G. The Bell Has Tolled

The Uruguay Round of multilateral trade negotiations concluded on 15 December 1993 without Canada's being able to clarify or strengthen GATT Article XI 2(c)(i). While it is still technically possible to use supply management, the fact that import quotas have been replaced with tariffs means that one of the three pillars of the supply management system has collapsed. This is the greatest disruption to this production policy since it was introduced in Canada 20 years ago; it also means that the bell has finally tolled for Article XI 2(c)(i).

PARLIAMENTARY ACTION

The national agriculture strategy "Growing Together," launched in December 1989, confirmed supply management as one of the pillars of Canadian Agricultural policy, while stipulating that it would have to evolve to become more open to market signals.

In modifying the rules of the supply management game, GATT gave new impetus to this desire for change. In 1994, Parliament will be asked to pass legislation to implement the Uruguay Round in its entirety, as agreed to by all the participants. The requisite legislation might take the form of an omnibus bill, as was done for the Free Trade Agreement between Canada and the United States, or a series of bills. A number of Canadian agricultural policies,

particularly those involving farm income support and transportation, might well be the focus of legislative amendments over the next few months.

CHRONOLOGY

1986 - The Group of Seven proposed some avenues of agricultural reform during the Tokyo Summit.

The Uruguay Round of Multilateral Trade Negotiations were launched in Punta del Este in September. Participants agreed to revise agricultural policies thoroughly.

1988 - In April, a private task force supervised by the Institute for International Economics and the Institute for Research on Public Policy, presented a working plan in order to bring the negotiations to a successful conclusion.

In June, the Cairns Group proposed some short-term measures to reduce support prices, with an exception for regulated support prices that form part of supply management systems.

In December in Montreal, the Mid-Term Review of the Uruguay Round ran into difficulty on the issue of eliminating or reducing agricultural subsidies.

1989 - The Mid-Term Review Agreements were signed on 7 April in Geneva. Among the short-term measures was to the escalation of various subsidies, which means a freeze on agricultural support prices.

1990 - On 15 October, Canada tabled at the GATT talks its proposal for reforming trade in agricultural commodities. This initial offer is, however, conditional upon the commitment of other member countries to negotiate a global reform of agricultural trade.

1991 - In December the Dunkel Report set out in concrete form the commitments in the area of agricultural reform. It contained no mention of Article XI.

1993 - The Uruguay Round concluded on 15 December 1993, without Canada's being able to clarify or strengthen Article XI 2(c)(i), an element that is crucial to the smooth operation of the supply management system.

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